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UNCLAS SECTION 01 OF 03 OTTAWA 003434

SIPDIS

SENSITIVE

DEPARTMENT FOR EB/IFD, WHA/EPSC, L/PIL - BURMAN AND WHA/CAN  
STATE PASS FEDERAL RESERVE BANK FOR CHUGH  
STATE PASS SEC FOR JACOBS  
TREASURY FOR WILBUR MONROE AND DAVID NAGOSKI

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [CA](#)

SUBJECT: CENTRAL BANK GOVERNOR ENDORSES A NATIONAL  
SECURITIES REGULATOR; OTHERS FOLLOW

REF: A. TORONTO 2410 (OSC REJECTS PASSPORT SYSTEM)

[1](#)B. OTTAWA 1386 (NATIONAL REGULATOR)

[1](#)C. 03 OTTAWA 3718 (WISE PERSONS COMMITTEE ON  
NATIONAL REGULATOR)

[1](#)1. (U) Sensitive but unclassified. For USG use only.

[1](#)2. (U) Summary: In a December 9 speech, Bank of Canada Governor David Dodge characterized the provinces' proposed "passport" system of securities regulation (Ref A) as "unworkable." While "declining to weigh in" on the debate over a national securities regulator, the Governor said that "efficiency does dictate that Canada should have uniform securities laws and regulations." In post-speech remarks, Dodge also called for stronger steps to crack down on the perception that Canada's financial markets are a "Wild West," a sensationalist comment that could go far to build public support for reform.

[1](#)3. (U) Finance Minister Ralph Goodale, responding to questions on Dodge's remarks, said the federal government does not have infinite patience to wait for the provinces to establish a single securities regulator. Dodge and Goodale have subsequently received support from parliament and the IMF. The House Finance Committee has called for implementation of a national securities regulator by June 30, 2005 and the IMF said that adopting a single national securities regulator "would reduce compliance and administrative costs," a statement that headlined reporting in a national newspaper. These comments by top financial officials and the IMF signal a new focus on long-pending issues in the financial sector. (Dodge's comments on bank mergers are being reported septel.) End summary.

BOC Governor leads the offensive

[1](#)4. (SBU) Bank of Canada Governor David Dodge strayed from his prepared remarks on Financial System Efficiency to characterize the provinces' proposed passport system (ref A) as "unworkable." While declining to weigh in on the debate over a national securities regulator, the Governor (returning to his text) said that "efficiency does dictate that Canada should have uniform securities laws and regulations." Given the limited size, depth and liquidity of Canada's financial markets, he said, they must compensate with greater relative efficiency. Our contacts in the financial sector welcome Dodge's voice in the debate and believe that he would be unlikely to address an issue as contentious as this (and one that is not strictly in his jurisdiction) without some coordination with the Department of Finance. As Paul Martin's former deputy at the ministry of finance, Dodge is assumed to reflect the Prime Minister's views.

Lawless Capital Markets?

[1](#)5. (U) Press reports have seized on Dodge's post-speech statement that foreigners have a perception that Canada's capital markets are "a Wild West." The head of the Canadian Securities Administration disputed the claim, saying Canada's securities regulation does not lag that in the U.S., but admitted that the perception that Canada isn't tough enough is "becoming a reality." Working-levels at the federal Department of Finance also regret the phrase, saying it distracts from the real issue.

[1](#)6. (SBU) Comment: A colleague at ConGen Toronto with long experience of Canada's financial sector offers a somewhat Machiavellian interpretation, pointing out that Dodge, of course, does not consider Canada's capital markets to be lawless. By tossing such headline-grabbing rhetoric into the public debate, the BOC Governor has put supporters of the status quo on the defensive and planted the seed in the public's mind that securities regulation might, in fact, need reform. No one with whom we spoke believes Dodge would speak inadvertently on such a sensitive issue. End comment.

Feds More Active in Support of a National Securities  
Regulator?

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17. (SBU) Asked about Dodge's remarks on securities regulation, current Minister of Finance Ralph Goodale said December 9 that the federal government does not have infinite patience to wait for the provinces to establish a single securities regulator. Although Goodale has made clear his longstanding support for a single securities regulator, the comment, made during a media scrum after Parliament's question period, was unexpected. (He was "not shooting from the hip, but not well-scripted," in the words of an official at Finance).

18. (SBU) A Department of Finance official confirmed that Minister Goodale's remarks reflect the tenor of internal discussions. The recent arrival of Deputy Minister Ian Bennett (from the IMF) and Senior Associate Deputy Minister Mark Carney (from Goldman Sachs via the Bank of Canada) has added new energy to the debate on how to move towards a single national securities regulator. Both are reportedly "keenly interested" in moving the process forward. The minister's advisors have pointed out to him that although the business community must take primary responsibility for convincing provincial securities regulators of the need for a single regulator, he had not spoken on the subject since his March budget message and needed to be more engaged. In their pre-budget consultations with interested parties in each province over the coming weeks, senior officials at Finance will be pushing for support for a single regulator. Those involved with this issue over the decades feel that lack of progress by the end of this year (or the fiscal year and new budget in March) would once again derail the single regulator debate (ref B).

Parliament is on board, sort of

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19. (U) The House of Commons Finance Committee's position paper in response to the GOC's pre-budget consultations, released December 20, strongly endorses adoption of a national securities regulator "no later than 30 June 2005." In a minority-party supplementary opinion, the opposition Conservative party seconded that view in the context of increasing productivity and streamlining regulations, criticizing the Liberals for lack of progress thus far. In a dissenting opinion, the Bloc Quebecois reiterated that a Canadian securities commission would be "completely unacceptable to Quebec." (Note: Ref B describes the more nuanced view of Quebec's financial regulators. End note.) The NDP stuck to fiscal concerns and did not refer to securities regulation.

And the IMF joins in

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10. (U) The IMF's Preliminary Conclusions on Canada's 2005 Article IV Consultation, released December 20, highlights the desirability of single securities regulator in the context of further regulatory reform. Noting that both "the banking and insurance sectors have posted a remarkable performance in recent years," it adds that improvements such as clarifying the framework for bank mergers (septel) and adopting a single national regulator, "as recommended by the Wise Persons Committee," (Ref C) would reduce compliance and administrative costs. The report received prominent coverage in the business section of all the major papers, and adds to the base of support for progress on this decades-old issue.

Ontario pleased but not optimistic

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11. (SBU) An official at the Ontario Securities Commission (OSC) found Governor Dodge's comments positive, but doesn't believe the dynamic has changed. The OSC also felt that Finance Minister Goodale's remarks in support of a national regulator would carry more weight if the Liberals had a majority in Parliament and could thus be counted on to carry through on initiatives. (However, the Liberals and Conservatives together do have a healthy parliamentary majority.)

12. (SBU) Ontario, the only province that did not endorse the MOU on the passport system for the 13 provincial and territorial regulators (Ref A), is calling for more definite commitment to move towards a national regulator. However, on the theory that any improvement is helpful, the OSC is still committed to bringing about the planned August 1, 2005 implementation of the passport system. Ontario's Finance Minister remains very interested in engaging securities regulators in the other provinces to build momentum for a single regulator and hopes to announce an expert study group on the subject in February. However, it is not clear that any of the other provinces are on board. Ontario regulators see Alberta, fresh from provincial elections, as stable in the coming year but believe officials in British Columbia

will be distracted by elections there in May. Quebec's position is consistent, and officials there won't be engaging in the process.

¶13. (SBU) A Canadian Bankers' Association expert who follows the issue closely considers Dodge's comments "a big step, not your typical Central Bank Governor's statement." He said Dodge is "deliberately pushing the envelope." He interprets Goodale's comments as prodding the provincial regulators, showing that the Federal government is willing to play a more active role in the debate. Members of Toronto's financial sector told us last spring that if there was not progress on the proposals in the Wise Persons Committee report by the end of this year, the issue would lose momentum and fade away. It will still be a slow and difficult process, but the recent flurry of activity does support the Ontario Securities Commission's lonely push for a single regulator and the private sector's efforts with provincial regulators.

¶14. (U) ConGen Toronto contributed to this report.

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